

Stanford SOCIAL INNOVATION^{Review}

Supplement
Making Strides in Social Innovation
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and foundations for education and science. These social organizations have made great contributions to social welfare.

In the 1990s, Chinese third sector organizations were not only burgeoning in China but also organizing globally. International exchanges between nonprofit organizations were characteristic of this period. For example, the Tsinghua University NGO Research Center and the China Youth Development Foundation held international conferences on nonprofit organizations during this period. And in 1998, 18 foundations established the China Foundation and NPO Information Network as a forum for charity organizations.

The Challenge and Prospects of Philanthropy in Contemporary China

Beginning in the new century, however, the development of the philanthropic sector in China became more complicated. After the 2005 Orange Revolution in Ukraine, there were rising concerns in China about NGOs being used as a tool by the West for a “color revolution.” As a result, the government began to tighten its control over NGOs. In addition, following a period during which the concept of a market economy gained ground, the concept of the welfare state again became an influential concept in Chinese politics.

During the 10 years of the Hu-Wen regime (2002–2012), the government began to realize that it needed to provide certain social services. This was the reason for the termination of the Project Hope initiative. As public welfare investment by the government increased, the need for this kind of private welfare decreased.

Also, during that time, government-organized nongovernmental organizations (GONGOs) began to monopolize various charities. For example, the China Red Cross attempted to monopolize the donation market by excluding other private organizations to raise funds from the public. The China Red Cross and other GONGOs were also often very bureaucratic and lacked transparency. Further, numerous scandals severely impacted their public reputation and donations decreased. All of these events and activities have severely hindered the development of modern charity and philanthropy in China.

Nonetheless, after 30 years of reform, just like the concept of a market economy and a modern government, the concepts of a modern philanthropy and charity have begun to have a significant influence on China.

Facilitated by the Internet, the latest innovative concepts and practices of private philanthropy are diffusing into China. Concepts such as social enterprises, venture philanthropy, impact investments, B Corps, and the fourth sector have been introduced into China and are gaining in awareness and acceptance. These innovations have broadened the scope of philanthropy and charity in China; they have opened many possibilities for those who are interested in participating.

Furthermore, after several decades of economic development, there is now a group of well-off Chinese, whose investment capacity and ability to provide public goods far exceeds past capacities. With a growing middle-class consciousness, their ideas on doing good have also shifted from pure benevolence to a desire to promote positive social change through philanthropy. The weakening of the Chinese economy, the increasing risk of market investment, and the restriction of political participation are also contributing to this rising interest in philanthropy.

Although the Chinese government has recently paid more attention to welfare issues, the lack of accountability and the increasing complexities of welfare issues in modern society are leaving a large gap. The poor reputation of many GONGOs is also influencing society to demand more private welfare services.

The Chinese government today under the leadership of President Xi has not fundamentally changed the dynamic in China, where conservative and reforming tendencies coexist and conflict even as they guide social policies. This is evidenced in two recent pieces of legislation regulating public philanthropy, which tighten supervision on charities and at the same time ease restriction on fundraising from the public. Yet overall, Chinese philanthropy in the new century continues to develop and to persevere. The base of philanthropic resources is growing, and the ways in which to engage in philanthropy are expanding; and ultimately these are strong signals that the third sector and the fourth sector are advancing in China. ■

OVERVIEW CHINA

Making Strides in Social Innovation

Social innovation has become a critical tool in China’s efforts to tackle its social problems.

BY ZUOFU LAI & HONGYUN ZHOU

China’s economic reform and development in the past three decades has resulted in some great achievements that have attracted worldwide attention. With these successes, however, have come challenges, such as an increasing social divide and environmental degradation. These issues are highlighting the need for the country to address social inequality while maintaining social stability.

To address China’s challenges, governments, corporations, and society alike are

looking to the potential of social innovation. Encouraging and guiding socially minded innovative behaviors is seen as having great significance for fostering a better society and improving the quality of governance overall. And social organizations—nonprofit organizations, social enterprises, and other entities engaged in doing work for the social good—are thus increasingly able to effect change in areas ranging from economic development to environmental regulation.

These organizations complement the current market economy in a significant way, as they are helping to transform government functions and facilitate the provision of public services, as well as expand citizen participation. Many social organizations have proved to be an important source of innovation—even a force for change—on the

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path to building a harmonious society. Social innovation has become a critical tool in China's efforts to tackle social problems and meet the needs of its most vulnerable citizens.

This article explores the three key players involved in advancing social innovation in China: the government, corporations, and social organizations.

Government

The Chinese central government regards building an innovation-oriented country as one of its fundamental goals. "Promote social management system innovation" was proposed as early as June 2004 at the Fourth Plenary Session of the Sixteenth Central Committee. This proposal was interpreted in further detail in the 12th five-year plan (2011-2015), which included:

- "Accelerate reform of the social system: improve basic public services of social insurance, health care services and education."
- "Foster and support social organizations and supervise them in accordance with the law; support and guide participation in social management and social services."
- "Reform basic public service delivery by introducing competitive mechanisms and expanding purchasing services by the government to realize diversification of providers and ways of delivering these services."

At the national level, having these goals pushes the government to modernize its capacity for supporting innovation. Provincial and municipal-level governments are also leading experiments to outsource social services to nonprofit organizations and businesses. In 2012, the Shanghai Bureau of Civil Affairs and the Shanghai Charity Development Foundation launched a venture philanthropy fund of \$750,000 to support social service organizations and projects aimed at elder care. Within a short period of time, Shenzhen, Dongguan, Nanjing, Suzhou, Ningbo, and other cities adopted similar models.

Another trend led by local governments is the growing number of incubators that have been created for nonprofit organizations and social enterprises nationwide. These incubators typically provide support such as rent subsidies, seed funding, and registration assistance for startup nonprofit organizations and social enterprises. The Social Innova-

tion Center in Shunde District, Foshan City, for example, was the result of a \$4.5 million government investment. And the Social Enterprise Industrial Park in Suzhou covers an area of 2,800 square meters.

Corporations

While not traditionally considered to be a key stakeholder in the social innovation space, corporations are becoming more important, particularly companies seeking to create commercial models for sustainability and shared value strategies and products.

Over the last decade there has been a strong movement by Chinese companies to implement corporate social responsibility (CSR) policies and to integrate CSR into their operations. Venture philanthropy, for example, has been incorporated into the CSR development plans of many large Chinese businesses. One example is Lenovo, the world's second-largest manufacturer of personal computers, which launched a venture philanthropy program in 2009 that has provided \$900,000, IT products, volunteers, and training to build the organizational capacity of 32 nonprofit organizations and social enterprises. Lenovo has also used its marketing resources to promote its nonprofit and social enterprise partners.

A growing number of business leaders in China have started to explore ways to apply their business management experience and cross-sector networks and assets to innovative approaches to social businesses. By establishing or investing in private foundations and impact investment funds, these business leaders actively seek solutions to some of the pressing social issues in China, such as food safety, clean water and air, elder care, and education.

Social Organizations

At the end of June 2016, there were about 670,000 registered social organizations in China and an estimated 4.6 million unregistered social organizations. Being a registered organization not only opens the door to government support but also makes it easier to access grants and donations from foundations, businesses, and the public. A major barrier to nonprofit registration in China was the "dual administration system": the need to register at both the Ministry of Civil Affairs (or its local counterpart) and a supervisory agency of a government office.

That changed in March 2016 when the Charity Law of the People's Republic of China was passed by the National People's Congress.

The new legislation is widely considered to be an important step forward in China because of the cancellation of the dual administration system. The law also broadens the scope of what constitutes public welfare or charity by relaxing strict limits on freedom of association. A large number of grassroots organizations that are currently operating without any legal status now have the chance to register as nonprofit entities.

Even before the Charity Law, private foundations had become a growing force. More than 3,100 private foundations existed in China at the end of 2015. The majority are operating foundations that prefer to run their own initiatives rather than fund grassroots activities that often seem too small to make a significant impact. Nevertheless, foundations that provide grants or investments to nonprofits and social enterprises, such as the Narada Foundation, are playing a growing role in identifying and supporting nonprofits and social enterprises. Under the Charity Law, private foundations will be allowed to raise funds publicly, which will likely enhance their growth.

Over the last 10 years, a growing number of Chinese universities have created courses or corresponding institutions that focus on the topic of social innovation. In addition to research and advocacy on the broad issues related to philanthropy, social innovation, and social investment, many research centers and institutes run capacity-building programs for business leaders and nonprofit organizations. An ecosystem to support social innovation, though still in a nascent stage, has started to take shape.

Emergence of Social Investment

Social investment, especially impact investment, is an important supplement to charitable donations and government subsidies to social enterprises and other types of social purpose organizations in China.

A boom in private foundations—led by the wealthiest and most influential people in China—has brought new blood to the social sector. According to the China Foundation Center, the net assets of foundations in China exceeded \$15 billion in 2015. A growing group of these first-generation self-made millionaires and billionaires are interested in more than merely writing a check. Instead, they seek to engage in strategic philanthropy and impact investment.

Recent years have witnessed a rapid growth in the establishment of impact investment funds. Yet actual investments made by



these funds have been limited due to the immaturity of social enterprises. Most of the social enterprises in China originated in nonprofit organizations and are often small in scale, with a short history and limited business abilities.

On the other hand, founders who came from a business background are rarely aware of the nature of a “social enterprise” when they are trying to use business tools to address a social problem. They don’t see themselves as social enterprises, nor can they make use of their social impact to seek social investment or related consulting support or other resources. In many cases, it was only when investment institutions contacted them did they realize that the social enterprise model fit well with their business.

Presently in China, social investments are concentrated in social enterprises in the early stage of their development. In some cases, this even includes incubating early-stage enterprises. This phenomenon reflects, in part, the lack of infrastructure for social enterprise to grow, as well as the fact that there are too few social enterprises to invest in.

Challenges and Suggestions

Although the prospects for China’s social innovation are encouraging, many practical challenges remain. China is still in the stage of what could be called “uncoordinated innovation,” marked by lagging government policies, inadequate social enterprise development, a lack of grantmaking foundations and their financial support, and other factors.

To overcome these challenges, we believe that the government should promote social enterprise- and social investment-related laws and regulations, and relax restrictions on social enterprise investment by private equity funds. Currently there is no legislation that applies specifically to social enterprises, and as a result social enterprises in China appear in a variety of legal forms. Operating a social enterprise under a normal business registration can lead to doubts by the government and the public about the company’s social mission and values.

It is also important that China do more to encourage the growth of social investment capital. The first step is to release the capital of foundations. Philanthropic capital has played an important role in supporting the development of social enterprises. In the early stages of social enterprises when support is needed most but investment institutions are reluctant to provide resources, philan-

thropic capital has become the leading force in helping social enterprises to survive, grow, and scale. Yet most of China’s foundations are operating foundations, and very few undertake strategic grantmaking. It is important to find ways to help foundations transform from operating to grantmaking, and eventually evolve to venture philanthropy and impact investment.

In addition, it is important to release the power of personal capital. There are various methods to achieve this if we look at overseas practices. The Calvert Foundation in the United States, for example, raises funds by issuing Community Investment Notes and invests the money in organizations that can create positive social, economic, and environmental impact globally. The most representative model of releasing personal capital in venture philanthropy is the “giving circle,” a group of individuals who get together for coordinated and systematic giving. Because

of China’s circumstances, it may not be feasible to create Community Investment Notes because the legal risk is too high. But it may be feasible to encourage the creation of giving circles because the potential legal risk is low.

As the Chinese economy matures and the model of balanced growth replaces the model of growth at any cost, there is an increasing awareness of the country’s environmental, societal, and economic challenges. Despite this progress, the overall level of social innovation in China is still limited. If China hopes to realize its vision of a collaborative and healthy social landscape, the ecosystem that supports social innovation—in particular the government, business, and social sectors—needs to be improved. At the same time, the potential of social investment capital needs to be fully released to encourage individuals and organizations to contribute economic or noneconomic resources to social enterprises and other social purpose organizations. ■



CASE STUDY : **CHINA**

Using the Internet to Transform Giving

How the Internet giant Tencent is using its online platform to help increase charitable giving in China.

BY YULIN LI

Hengyi Huang is the founder of Aixingyiwu (The Loving House of Clothes), an organization based in Luzhou that collects used clothes, cleans them, and then donates them to those in need. The organization is two years old and very active, but it has struggled to make do with limited funding.

Huang recently received a request to donate 20,000 articles of clothing. However, his organization didn’t have the budget to cover the cleaning cost. In fact, at the time, he already faced a deficit of about RMB 300,000 (\$43,150). Huang sold some of his assets and donated RMB 100,000 (\$14,400) to his own

organization. But that still was not enough to cover the gap, even though his employees’ wages are only slightly higher than the minimum wage in that area. Aixingyiwu’s financial struggles continued.

In China, many people working in the world of charity are facing financial struggles that are similar to Huang’s. These individuals often lead small organizations with fewer than 10 staff members. They dream of bringing positive changes to the local society; however, they lack productive fundraising channels. Ironically, as a result, they are themselves becoming people who need help.

The good news is that on September 9, 2016, a new opportunity to gain financial stability opened up for Huang. Tencent, one of the largest Internet companies in China, held a fundraising event called 99 Giving Day. (In Chinese, “99” has the same pronunciation as “forever.”) Over the course of the event

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